KEY ECONOMIC INDICATORS

UPDATE

HOUSE FISCAL AGENCY

Economic Data Pertaining to the U.S. and Michigan Economies for Members of the Michigan Legislature

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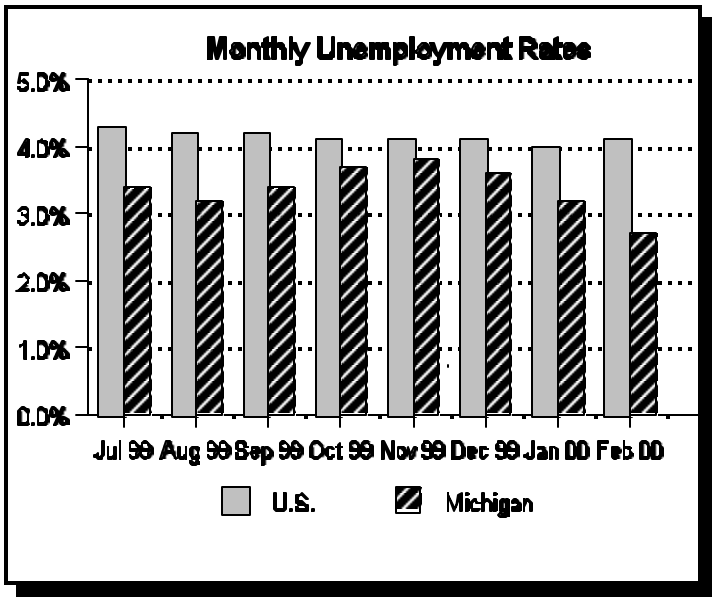
Employment

Trends in the Labor Market:[1] Michigan's seasonally adjusted (SA) unemployment rate reached an all time low of 2.7% in February, dropping from 3.2% in January. One year ago, the unemployment rate stood at 4.0%. The most surprising aspect of this decline is that the number of employed workers and the number of unemployed both decreased during February 2000. Total employment dropped by 3,000 workers while the number of unemployed fell by 27,000 over the same period.[2] As a result, the labor force fell by 30,000 workers between January and February, bringing the total to just over 5.07 million workers.



- Since March 1995, the unemployment rate in Michigan has remained below the U.S. level. Not only is the trend continuing, but the gap has actually widened over the past several months. The unemployment rate for the country as a whole rose from 4.0% in January to 4.1% in February.

- Total employment in Michigan stands at just over 4.93 million after a decrease of 4,000 workers between January and February. Total employment for February 2000 has grown by 8,000 workers (about 0.2%) when compared to February 1999.

- Total unadjusted wage and salary employment in Michigan rose to almost 4.5 million at the end of February, a net gain of 23,000 workers since January. The vast majority of this rise is attributable to increases in educational employment at both the state and local levels. Conversely, the retail trade

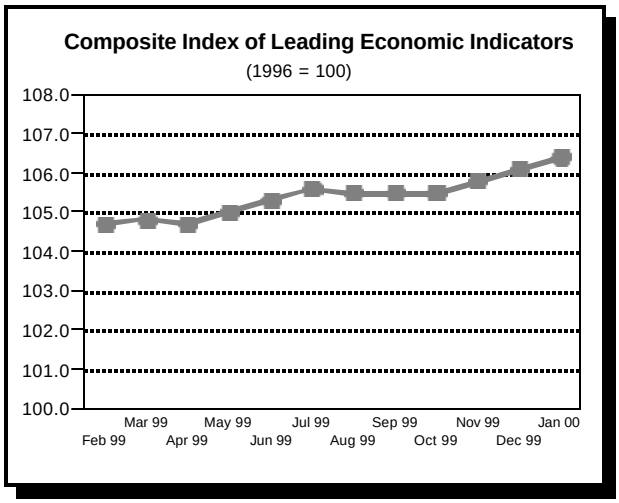
[1] U.S. unemployment figures are supplied by the Bureau of Labor Statistics. Michigan employment figures are supplied by the Michigan Employment Service Agency. Data are seasonally adjusted at annual rates (SAAR) unless otherwise indicated.

[2] Labor force is defined as the number of employed workers plus the number of unemployed workers.

sector fell by 8,000 workers in February as post-holiday shopping eased off. Employment in goods producing industries remained constant.

The National Economy

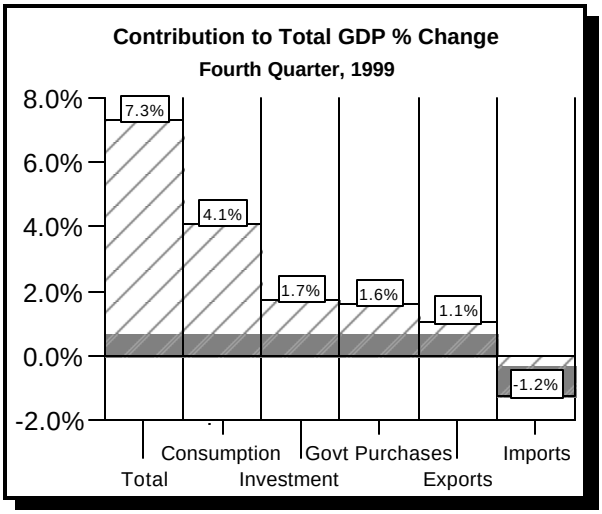
Composite Index of Leading Economic Indicators:[3] In predicting the future path of the economy, economists traditionally look at the composite index of leading economic indicators. The value of the index is derived from several economic indicators and is calculated by The Conference Board, Inc., New York, N.Y.



The composite index of leading economic indicators increased from 106.1 in December 1999 to 106.4 in January 2000. Seven of the ten component indicators that make up the index increased in January, with the largest impacts attributable to an increase in the number of building permits, higher consumer expectations, and an overall increase in the money supply. Of the three components that fell, the most significant decline was in the number of manufacturers' new orders of consumer goods. Over the past six months, the index has risen 0.8%, and eight of the ten components have shown net increases.

Components of Gross Domestic Product:[4] Gross domestic product (GDP) measures the total value of all final goods, services, and structures produced in the United States. Growth in GDP is the standard measure of the performance of the economy and has four main components: personal consumption expenditures, gross private domestic investment, government purchases of goods and services, and net exports (exports less imports) of goods and services.

Real GDP (final) grew at an annual rate (AR) of 7.3% during the fourth quarter of 1999, dramatically ahead of the 5.7% rate posted in the third quarter, primarily due to increases in personal consumption expenditures. The growth rate of gross private domestic investment was 10.0%, down from the 13.6% growth rate posted in the third quarter. This decline was most pronounced in the non-residential sector. For 1999 as a whole, real GDP advanced at a 4.2% rate.



- **Consumption expenditures** grew at a rate of 5.9% (SAAR) in the fourth quarter, up from the 4.9% third quarter growth rate. For all of 1999, consumption grew at a 5.3% rate. Both the durable and nondurable goods sectors witnessed increases in their fourth quarter growth rates (13.0% and 7.6%, respectively); growth in the service sector dropped from 5.0% to 3.7% between the third and fourth quarters.

- **Gross private investment expenditures** grew at a 10.0% (SAAR) rate in the fourth quarter, down from the third quarter rate of 13.6%. Nonresidential investment in structures fell by 0.5%, and has now decreased for four consecutive quarters. Investment in equipment and software, which grew at a rate of 12.0% for all of 1999, posted a much lower fourth

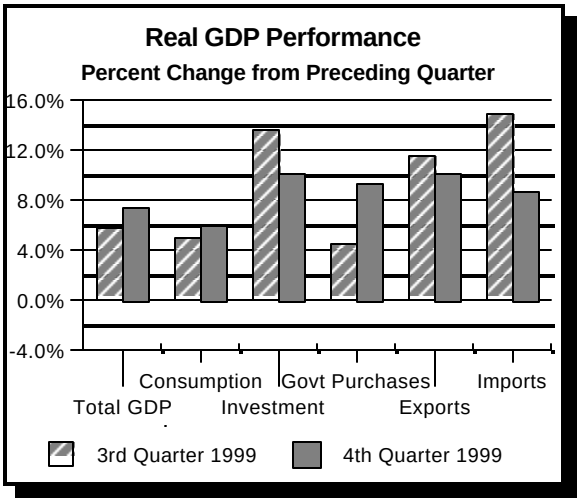
[3] Data on the leading index are seasonally adjusted and are published in *Business Cycle Indicators,* The Conference Board. The *composite index of leading indicators* is composed of several employment measures, measures on new orders and contracts for various durable goods, measures of consumer expectations, and measures of several monetary variables.

[4] Data on macroeconomic variables are expressed in chained 1996 dollars and are available from the *Survey of Current Business*, U.S. Department of Commerce, Bureau of Economic Analysis.

quarter growth rate of 4.0%. Residential investment in structures rose by 1.8%, while the remaining investment sectors increased marginally.

- **Total government expenditures** jumped by 9.3% (SAAR) in the fourth quarter, fueled by a 17.2% rise in federal defense spending and a 10.3% increase in nondefense expenditures. State and local government expenditures rose at a 6.4% rate during the same period. For the year as a whole, government spending at all levels increased by 3.7%.

- **Net exports** remained negative in the fourth quarter as imports continued to exceed exports. Exports of goods and services increased at a 10.1% rate, more than offsetting the 8.7% increase in imports. For 1999 as a whole, the real trade balance finished with a deficit of $323.0 billion.



Inflation: Inflation estimates the decline in the purchasing power of a dollar over time and is measured as the rate of change of the **consumer price index** (CPI). Michigan inflation is measured as the rate of change of the **Detroit-Ann Arbor CPI** (D-CPI). Both the CPI and the D-CPI are calculated by the Bureau of Labor Statistics.

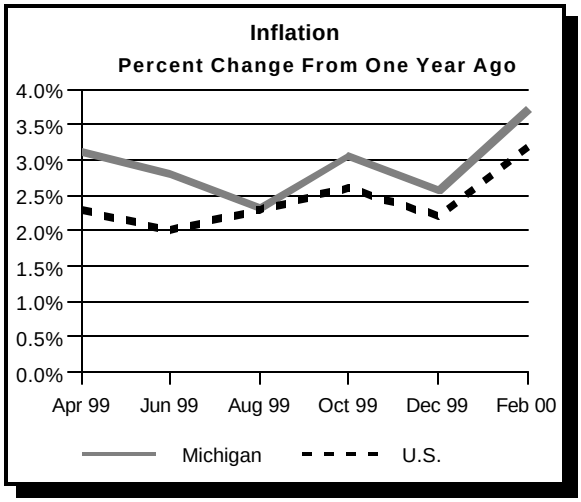
Although inflation in the U.S. has remained low by historical standards, there are indications that the rate could increase somewhat in the foreseeable future. The CPI rose from 168.7 in January 2000 to 169.7 in February 2000; the CPI stood at 164.5 in February 1999. This translates to an annual inflation rate of 3.2%. For Michigan, D-CPI from increased from 165.6 in December 1999, which, by itself, should not contribute to inflationary pressures.

- The **capacity utilization rate**,[5] which continues to stay below its 30-year average of 82.0%, has risen very modestly throughout 1999 and into 2000. Capacity utilization for both January and February stood at 81.7%. Overall industrial capacity has grown by 3.9% since February 1999, which suggests that inflation should continue to be held in check.

- The **producer price index (PPI)**, an increase in which could signal higher future inflation, has risen by 3.9% (AR) from February 1999 to February 2000. To the extent that higher producer prices are transformed into higher consumer prices, this indicates that a modest increase in the CPI may be on the horizon.

- **Labor productivity** growth, an increase of which tends to offset inflation, increased by 3.0% for all of 1999, and grew by 6.4% during the fourth quarter.

- **Employment cost indices** have increased slightly faster than the rate of inflation. For all of 1999, total compensation costs have risen at an annual rate of 3.4% while wages and salaries have grown by



[5] The capacity utilization rate measures the ratio of output capacity used to total production capacity available, and is calculated by the Federal Reserve Board. The producer price index measures the average price of finished goods. Labor productivity measures nonfarm business output per hour. Employment cost indices measure the change over time in labor costs. All three are calculated by the Bureau of Labor Statistics.

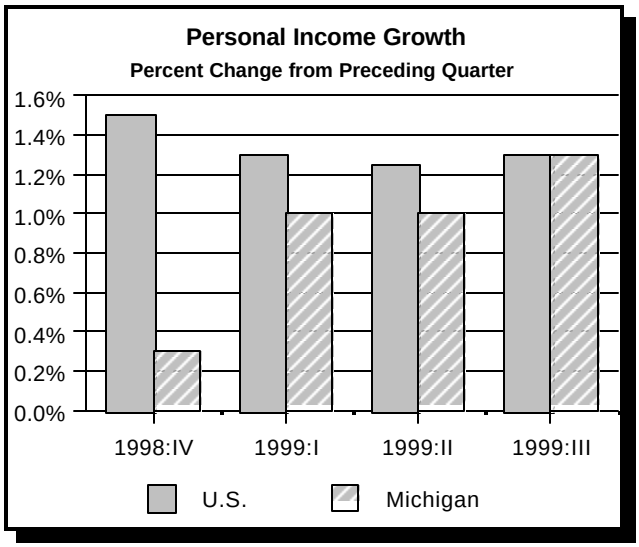
3.5%. Although increases in employers' costs can trigger inflation, the increases in labor productivity will likely minimize any inflationary effects.

The Michigan Page

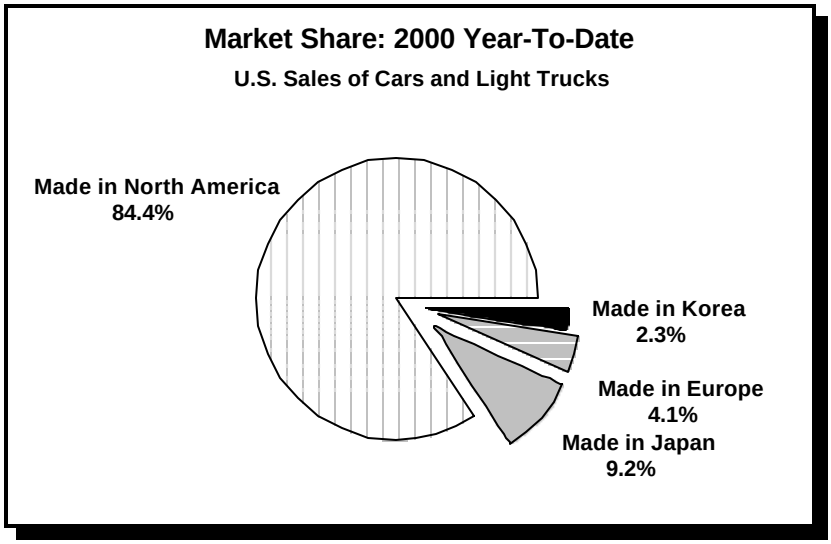
Personal Income:[6] Growth in state tax revenue is largely determined by growth in state personal income. The most current estimates indicate that personal incomes in both Michigan and the U.S. grew at the same rate during the third quarter of 1999.

- The U.S. Department of Commerce reported that **Michigan's personal income** (preliminary) grew to $265.9 billion (SAAR) in the third quarter of 1999. This represents an increase of 1.3% over the second quarter and a 4.9% increase over the past year. In comparison, U.S. personal income increased at 1.3% during the third quarter and by 5.6% since the third quarter of 1998.

- **Real disposable income**[7] is an indicator of future expenditures in the durable goods sector. This sector, comprised of light vehicles and other goods, is an important contributor to the Michigan economy. The growth rate of real disposable income (final) for the U.S. increased 4.7% (SAAR) in the fourth quarter of 1999 after growing by only 2.9% during the third quarter. For all of 1999, real disposable income grew at a 4.0% rate.



Auto Industry:[8] **U.S. sales of cars and light trucks** for the first two months of 2000 totaled just over 2.7 million units, almost 14% ahead of last year's record-breaking pace. Although the number of cars and light trucks made in North America during this period rose by 11.2%, the North American share of the overall market dropped slightly to 84.4%. Sales of North American-made cars posted an overall increase of 9.3% while sales of North American-made light trucks jumped by 13.1% when compared to the first two months of 1999. Korean automakers saw sales of cars and light trucks increase by almost 80.3% during the same time period, which was enough to increase their share of the world market to 2.3%.



Total year-to-date **U.S. car production** amounts to just under 1.38 million vehicles, about 1.0% above the same period in 1999. In contrast, **U.S. truck production** stands at slightly below 1.86 million vehicles, or 4.5% ahead of last year's output. Overall, year-to-date total U.S. car and truck production is running 2.9% ahead of 1999.

[6] Personal Income data are reported by the U.S. Department of Commerce, Bureau of Economic Analysis. Income figures are seasonally adjusted at annual rates (SAAR).

[7] Disposable income figures are chain weighted and seasonally adjusted at annual rates (SAAR).

[8] Automotive figures are published in *Automotive News*. The end of the Big Three has necessitated a change in the automotive summary figures. Four general categories consisting of "Made in North America," "Made in Japan," "Made in Europe," and "Made in Korea" will now be used in place of the previous aggregation categories.